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MANAGEMENT AUDIT

OF

EQUIPMENT STANDARDIZATION

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by

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October, 1979

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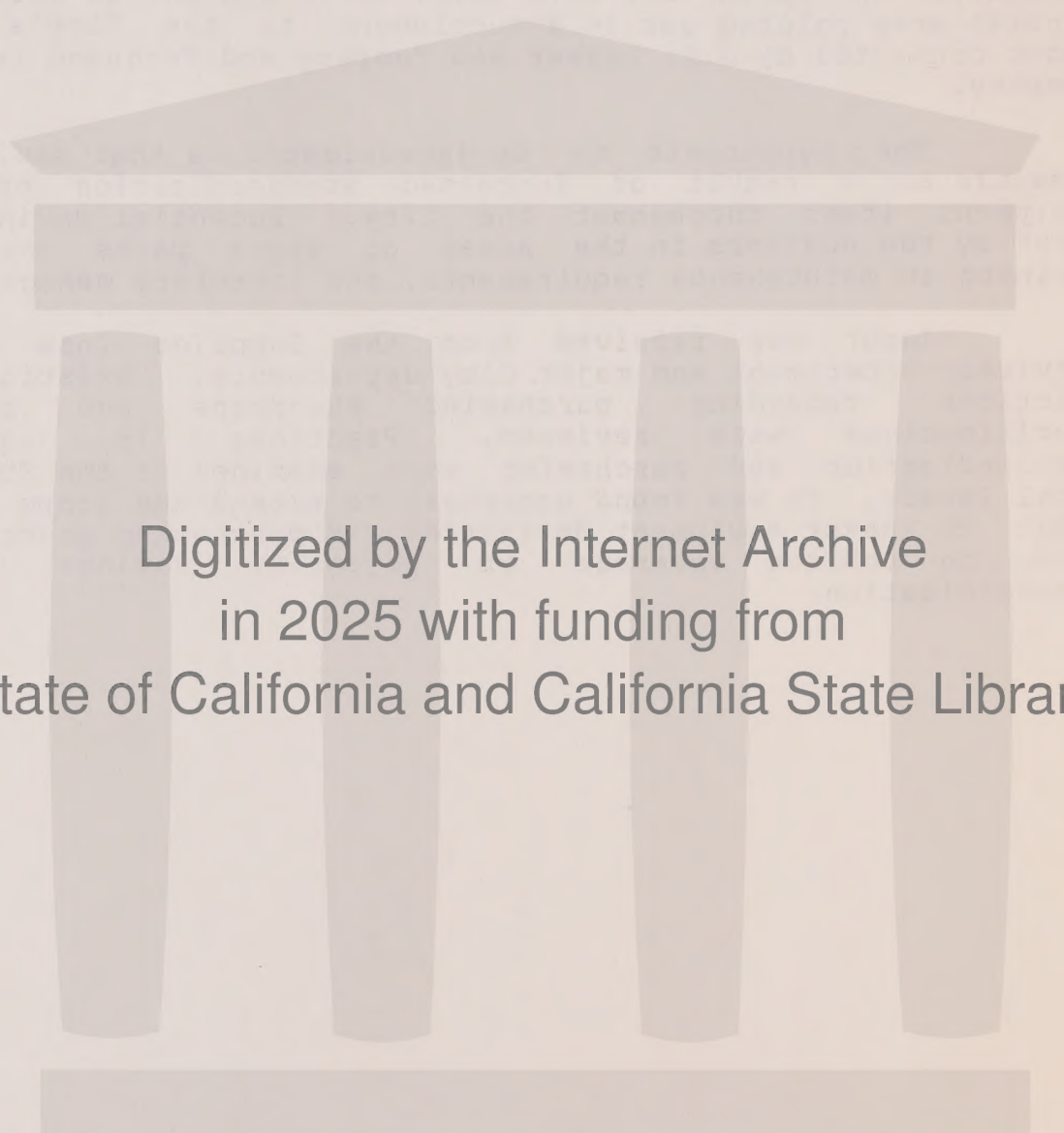
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INTRODUCTION

This Management Audit of Equipment Standardization was performed as a result of a commitment to the City Council Finance Committee on March 16, 1978 (C.F. 74-1340 S-5A) to follow-up a problem area pointed out in a supplement to the City's annual audit conducted by J.K. Lasser and Company and Ferguson Leung and Company.

The hypothesis to be investigated is that savings are possible as a result of increased standardization of major equipment items throughout the City. Potential savings were cited by the auditors in the areas of spare parts inventory, training in maintenance requirements, and inventory management.

Input was received from the Supplies (now General Services) Department and major City departments. Existing City practices regarding purchasing standards and standard specifications were reviewed. Practices in equipment standardization and purchasing were examined at the State and local levels. It was found necessary to extend the scope of the audit to cover equipment definition and purchasing practices in order to achieve coverage of potential savings through standardization.



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SUMMARY

The City lacks a single definition of equipment. This became apparent when the Audit Team began to investigate equipment standardization. After discussion with major departments and the City's purchasing staff, we have concluded that a single definition would be highly desirable. This report recommends such a definition substantially in accordance with State Controller guidelines, together with a procedure whereby non-equipment items can be controlled either at point of purchase or by an inventory system, or both.

This Office previously had reported to Council: "There is no question that more standardization of major equipment items would result in a savings to the City." The findings of this report confirm this statement. The Audit therefore concentrated on the extent of current standardization and ways of achieving savings by expanding the practice.

The City's Administrative Code provides for a Purchasing Standards Committee. To date, this body has confined its attention to a relatively few items, primarily in the "expense" area. A prior Management Audit Report, "Feasibility Study of Consolidation of Fleet Maintenance Operations" (October 1978) recommended an increased role for this Committee in the purchase of vehicles. It is further recommended that the Purchasing Agent refer major equipment requisitions to this Committee for review. The same report recommended the establishment of a Fleet Management Committee "to investigate potential areas of opportunity to attain greater efficiency in the operation of City fleets".

Upon closer review of the volume of material under jurisdiction of the Purchasing Standards Committee, together with the fact that over 80% of the City's last "normal" (1977-78) equipment budget was for vehicular items, this report recommends that the Fleet Management Committee be given standardization responsibility for vehicular equipment. Considerable opportunity exists for the standardization of non-vehicular equipment under the new Materials Management Program. The recommendations envision an increased role for the Purchasing Standards Committee in conjunction with the Materials Management Program.

An area of considerable savings not mentioned in the Lasser/Ferguson Leung report is in purchasing practices. Two thirds of the City's purchase orders were for amounts under \$500 when last surveyed. At a cost of approximately \$60 per order, savings are possible to the extent standardization results in

fewer purchase orders. The potential savings can result from either expense or equipment standardization.

The findings of this report indicate room for improvement in defining "lowest responsible bidder" in the Charter-required competitive bidding process. Procedures must be developed to account for factors such as parts inventory and training costs so that the City receives the lowest ultimate cost in place and use.

This report has not specifically considered the special conditions of the first years following Proposition 13 in which very little equipment was purchased. A basic assumption is that the City must, at some time in the future, return to a planned program of equipment acquisition. When this occurs, procedures for increased standardization should result in more effective use of funds budgeted for equipment.

RECOMMENDATIONS

That the Mayor request:

1. That the City Administrative Officer and City Controller, in consultation with the Purchasing Agent:
 - a. Provide a common definition of "Equipment" for use in the budgeting, accounting and inventory systems of the City of Los Angeles, substantially following the definition of equipment mandated for use by counties by the State Controller as modified to include City approved Exceptions Listings.
 - b. Provide standardized equipment item descriptions and City Stock Numbers to City departments for use in their budgeting and accounting systems.

That the Purchasing Agent:

2. Consolidate and purchase on fewer purchase orders, all common equipment items listed on the Consolidated Departmental Equipment List, including the following steps:
 - a. Obtain from the City Administrative Officer a list of departmental equipment budget requests which are under serious consideration so that next fiscal year's equipment can be included for possible consolidation with current year purchases through future purchase options.
 - b. Instruct all City departments to submit purchase requisitions for equipment and transfer budgeted departmental equipment funds to the Supplies Division during specified time periods so that purchase order consolidation can take place.
3. In cooperation with the Purchasing Standards Committee, determine what staff support is needed to prepare the standards and standard specifications required by the Administrative Code, and arrange for this support by Supplies personnel or recognized experts in other City departments.
4. Determine if it is necessary to have more than one representative on the Purchasing Standards Committee and if so request that the Code be modified. Otherwise, the Purchasing Agent should designate only one representative to act as a member of the Committee.

5. Provide all City departments and buyers with a complete set of current City Standards and Standard Specifications and distribute revisions as issued.
6. Advise all City departments in writing of his intention to refer requests for deviation from City Standards and Standard Specification to the Purchasing Standards Committee for approval or disapproval.

That the Purchasing Standards Committee:

7. Reinstitute use of Advisory Committees composed of persons from user departments who are especially knowledgeable about the class of items being considered.
8. Make greater use of federal specifications in order to expedite the creation of City standards and standard specifications.
9. Issue one document containing the "Standards" and "Standard Specifications" for any given item.

That the Mayor and Council:

10. Request the City Attorney in cooperation with the City Administrative Officer, to prepare an amendment to the Los Angeles City Administrative Code transferring responsibility for standardization of vehicular equipment from the Purchasing Standards Committee to the Fleet Management Committee established under Council File 78-1955 S-1, and include the Purchasing Agent as a member of the Committee.

STANDARDIZATION

A leading text on purchasing management defines standardization as "the process of establishing agreement upon quality, design, and composition" of a particular item. Standardization as a concept applies to expense and equipment items alike, although the focus of this Management Audit is on equipment. Benefits from standardization include:

- 1) Savings on initial purchase through quantity discounts;
- 2) Savings in parts inventory for equipment items;
- 3) Reduced training costs for equipment repair employees; and
- 4) Reduction in administrative cost by issuing fewer purchase orders.

This Management Audit examines the current status of City standardization efforts, and ways in which these efforts can be expanded to secure additional benefits. The Supplement to the City's 1974-75 annual audit by J.K. Lasser and Company and Ferguson Leung and Company noted potential savings through standardization of major equipment items, and prompted a request by the City Council's Finance Committee for this management audit.

DEFINITION OF EQUIPMENT

In analyzing equipment standardization, one of the first problems noted by the Audit Team was the lack of a single "standardized" definition of equipment.

Currently there are several definitions for "equipment" in the budget process, expenditure accounting, and in the equipment inventory system. These varying definitions are causing problems in City departments charged with the responsibility of acquiring and controlling equipment.

For example, in the budgeting process, the City Administrative Officer defines equipment as:

- a) Complete Vehicle, chassis, or body.
- b) Any item of electronic communications equipment for stationary or vehicular use.
- c) Any item of electric or electronic office equipment.
- d) Any item or office furniture costing more than \$50.

- e) Any item or shop tool used for the purpose of automotive or machinery repair (does not include repair parts or field tools), or any other operating equipment item costing more than \$100.

The Controller, in the Citywide Equipment Inventory System, defines equipment as: "Equipment or furniture of a similar kind collectively situated and individually costing less than \$50.00 but when combined would have value greater than \$50.00 must be included in the inventory. Items in this category should have a common description and the same unit cost. Example: A group of chairs."

The differing definitions evolved starting in 1960 when an ordinance was adopted establishing tighter control on the City's equipment. Part of the ordinance stated: "The Purchasing Agent and the Controller shall prescribe the items of furniture and equipment to be contained in the record or list herein provided."

Because City departments had problems implementing the equipment control system, in 1967, the Controller and Purchasing Agent issued a memorandum to clarify the meaning of equipment. Part of that memorandum stated that the definition of equipment was to be the definition in the CAO Budget Manual. At that time, the manual stated: "Equipment includes all articles costing in excess of \$25.00 per item which can be used repeatedly without materially changing or causing an appreciable impairment of the physical condition and which has a period of service in excess of one year, other than those specifically excepted by administrative orders".

In December, 1975, a memorandum from the Controller's Office provided more instructions as to the control of the city's furniture and equipment and in that memo a statement was made: "If you need a definition of equipment, it is suggested that you refer to the CAO Budget Manual."

Therefore, there was a common definition of equipment used in the City for the budget process and for the inventory of equipment from 1967 to 1977. In 1977, the City Administrative Officer issued a revised definition of equipment as part of a budget manual revision.

The Controller's revised definition of equipment was issued in July, 1978.

Another variation exists in the City's Community Development Department which allows a broader description of equipment for use by its delegate agencies. It classifies equipment as "nonexpendable personal property which is property

which will not be consumed or lose its identity by being incorporated into another item of property, with a cost of \$100 or more per unit and which is expected to have a useful life of one year or more."

These differences in defining "equipment" are inconsistent with a basic principle of governmental accounting and reporting, which states: "A common terminology and classification should be used consistently throughout the budget, the accounts, and the financial reports." This reference is contained in a publication of the American Institute of Certified Public Accountants, "Governmental Accounting, Auditing, and Financial Reporting" (GAAFR). This publication further states that in the process of determining the budget and the scope of financial operations, meaningful and efficiently produced results can be obtained only if there is common language and uniform classification system in all three components of financial administration.

To the maximum extent practical, common language should be used in all phases of budgeting, accounting, and reporting.

Certain principles are advocated under General Fixed Asset Accounting guidelines as prescribed by the State Controller. The County of Los Angeles follows these guidelines.

The following definitions concerning Fixed Assets were extracted from Division IV, Chapter 4 - General Fixed Assets, of the State Controller's Guide, "Accounting Standards and Procedures for Counties" (See Exhibit 2). The accounting procedures in this guide are required to be followed by counties in the State of California, but are optional for cities to follow. The County of Los Angeles follows the Guide in accounting for its fixed assets.

"Fixed Assets" are tangible assets of significant value having a utility which extends beyond the current year. The fixed assets to be included in the system are land, structures and improvements, and equipment.

Land includes the investment, held in fee title, and real estate other than structures and improvements and land acquired for street and road purposes.

Structures and Improvements are physical property of a permanent nature, examples of which are buildings, structural attachments, storage tanks, reservoirs, and parking areas. Sidewalks, trees, and drives in connection with other structures or parks should also be capitalized.

Equipment includes moveable personal property of a relatively permanent nature and of significant value, such as furniture, machines, tools and vehicles.

"Relatively permanent" is defined as a useful life of three years or longer.

"Significant value" is defined as \$300 or over. A governmental agency may exercise the option to include borderline items over which to exert an accounting control. Exceptions to the \$300 value and a three-year life rules shall be consistently applied. Lists of items to be capitalized in accordance with these rules may be established. Generally, the governmental agency's investments in fixed assets should be recorded at historical cost. The objective is to account for the investment, not the present market or replacement values."

The County has a common definition which is used in the budgeting process as well as in the accounting and inventory control process. In the County system, "Fixed Assets-Equipment is defined as equipment costing \$300.00 or more, or a specifically listed item, regardless of cost, on the Fixed Asset-Equipment Price List or the Auditor/Controller Exception Listings. All equipment items not listed as Fixed Asset items or costing less than \$300.00 should be requested under Services and Supplies".

The County's definition and instructions to County departments specifically identify those items on their exception list which are not to comply to the \$300.00 limitation.

The findings of this report indicate that using the State Controller's Fixed Assets guidelines could benefit the City. The County of Los Angeles equipment exception list could be the basis for a list tailored to the City's needs. (See Recommendation No. 1.) For example, the City's Exception Listing could contain the following categories: (Items listed for illustration only).

- A. Items which would be classified as Equipment if the cost is over \$300, but should be classified as Expense if \$300 or less.

Examples:

Construction and Maintenance Equipment
Chair, all
File, all

- B. Items which should be classified as Equipment if the cost is over \$50, but should be classified as Expense if the cost is \$50 or less.

Examples:

Camera
Radio
Tape Player

- C. Items which should be classified as Equipment, regardless of cost.

Examples:

Cash Register
Calculator
Firearm
Dictating Equipment

- D. Items which should be classified as Expense regardless of cost.

Examples:

Bench, Wood, seating
Receptacle, waste
Carpeting

- E. Original acquisition items which should be classified as Fixed Assets, Structures and Improvements, and should be included in a capital project. Replacement items should be classified as Expense. Additions should be classified as Expense, but can be classified as Equipment if the cost is over \$300. Additions should be classified as Expense if the cost is \$300 or less.

Examples:

Air Conditioning System
Hoist, built-in
Compressor
Sink
Transformer

Standardization of Descriptions - Consolidated Purchasing

Standardized descriptions do not now exist for equipment listed on the Consolidated Departmental Equipment List. This lack often causes separate purchases of equipment even though the items are the same. Lack of common equipment descriptions

prevents effective combination of like equipment items on purchase orders needed to promote greater standardization of equipment at a lower cost to the City.

Previous studies of the purchasing activities in the City indicate that it costs over \$50 to process a purchase order from departmental initiation to completion. There are approximately 30,000 purchase orders processed annually, and when last surveyed two thirds of these were for under \$500. Potential economies are significant in that each reduction of 1000 purchase orders will yield over \$50,000 in savings.

The current purchase order system does not permit the encumbrance of funds for common items of equipment on the same purchase order for two different departments. For example, if two different City departments wanted the same type of office calculator, it would have to be processed on two different purchase orders for fund encumbrance to proper departments.

A method to overcome this restriction was employed by the Purchasing Agent in 1978. He made a single purchase for typewriters listed on the Consolidated Departmental Equipment List for the 1979-80 Budget. He also purchased a group of desks at a reduced cost to the City several years ago. Both of these purchases were made from the Stores Fund. In effect, this practice extends the City Stores concept to common equipment items.

However, combined purchases using the Stores Fund are not employed for more equipment items because the Stores Fund has limited funds, and it is difficult to combine items from the current equipment list, because the item description varies so much between departments. It also is difficult to have departments agree as to the timing of their equipment purchases.

Even though common items such as furniture, office and technical equipment are a minor portion of the Equipment Budget, they are numerous and used by nearly all City departments. Currently, separate purchase orders are used to process identical individual equipment items for each department. To obtain a greater degree of standardization and reduce the overhead costs for processing purchase orders for furniture, office and technical equipment items, a system should be devised to permit the Purchasing Agent to combine the similar items and have them purchased through the Stores Fund.

The best way of combining similar equipment items is a common description of these items on the Consolidated Departmental Equipment List. For the last year and a half, the COINS staff in the Supplies Division has been applying a common class code and stock number to over 62,000 items purchased by the

City. This common identifier for City purchases could be used to promote common equipment item descriptions through the Budget process, accounting and in the City's inventory system. The Purchasing staff could then combine common items for purchase on a single purchase order in order to promote equipment standardization as well as reduce purchasing costs in the City. This is preferable to the current practice of annual purchase contracts.

These annual contracts are presently used to purchase most office equipment and communications equipment. However, discussion with Purchasing personnel indicates that a better price is likely through consolidated purchases. Some annual contracts have provisions where the price may be increased during the year and purchases made against the annual contract late in the year can cost more than those made earlier. Since vendors do not know the quantity of an item to be purchased under an annual contract or how many separate orders against the contract they will have to process, it is likely that they will give a less favorable bid price on an annual contract than on a single order. (See Recommendation No. 2.)

If common equipment items such as desks, chairs, and file cabinets are included in City Stores, delivery times on these items can be shortened significantly. Such consolidated purchasing may occur more readily under the City's new Materials Management Program.

Materials Management Program

The City currently is implementing a new city-wide Materials Management Program, recommended by Touche Ross and Company in 1977. The objectives of this program are to centralize control over the separate purchasing activities and warehouses of City departments. The uniformly controlled operation is under the direction of the Supplies (now General Services) Department and its newly formed Materials Management organization. The program will include analysis of the systems used to procure all supplies, materials, and equipment used in the City.

The Materials Management Program stresses stock type supply and material items such as auto parts, paper goods, and asphalt. Equipment items also will be part of the system.

The new Materials Management System will:

- a. Create a central materials revolving fund in the Supplies Department. City users will pay for materials through annual appropriations similar to the current Stores Revolving Fund process.

- b. The existing COINS system will be improved and used in all City warehouses so that common stock terminology will be used throughout the system.
- c. Greater management level information will be available for decision making; duplicate and costly paperwork will be minimized.
- d. The Procurement Director will interface with other City departments concerning purchases, product specifications standardization, and vendor performance. He will also attempt to minimize total purchase costs through order consolidation and improved material requirements forecasting. Materials specification will be standardized.
- e. The specifications and standards analyst will standardize specifications where appropriate to promote economic ordering and interchangeability of materials between departments. He will revise specifications as appropriate to conform to standard practice and established departmental procedures.

Findings of this report on equipment standardization indicate that the Materials Management has a high potential for increasing standardization. Any implementation of the recommendations herein should eventually fit into the Materials Management System. For example, the standardization of component terminology, consolidation of equipment purchases, a common acceptable definition of equipment and expense items, and a continuing research of commodity groups and equipment categories to promote standardization in the City are consistent with the Materials Management concept. An increase in consolidated purchasing using the Stores Revolving Fund for furniture, equipment and technical items listed on the City's Consolidated Department Equipment List also is consistent.

Multi-Year Equipment Planning

Because of the long life and high cost of major equipment items, major decisions are required at top management levels of the City. There are many interrelated problems which must be considered in order to formulate an equipment purchasing policy.

The Customization Study for the City's Integrated Systems Plan identified certain management problems experienced by support agencies in providing services within the annual budget cycle and without specific plans from user agencies. These support agencies included the Data Service Bureau, as well as two organizations now in the General Services Department; Public Utilities and Transportation and Fleet Services.

The problems created by the City's budget cycle and system of single-year appropriations are compounded by time requirements for the preparation of specifications and ordering of new equipment items. The annual budget cycle does not provide support departments with adequate information in time to prepare plans and acquire necessary resources to satisfactorily support operating departments. Support departments by their nature, must have a high dependency upon operating departments' requirements but are unable to respond to these requirements since specific plans are not available at the appropriate time.

The services provided by the three mentioned departments are subject to separate budget requests. These budget requests normally are part of the budget submission and include only replacement and maintenance items. Requested new or upgraded services depend on operating budget decisions. Advance submission of budget requests only gives the support department time to prepare facts for the CAO, Mayor and Council to decide upon the budget appropriation. This situation provides no opportunity for the support department to advise a user as to the suitability of the request or possible monetary savings. The actual operating program and consequent needs of the support department are not known until the budget is finally adopted, usually in June.

If a program is scheduled to start on July 1, it is virtually impossible for the support department to provide service in that brief period of time. Consequently, new and expanded programs routinely have suffered start-up delays. For instance, in Fleet Services, it is not unusual for the purchase of a piece of heavy specialized equipment to take from 12 to 18 months from the time funds are available. A large part of this time is consumed by writing the specifications. This involves a substantial amount of work which the organization is reluctant to do until there is some assurance that funds will be available to purchase the vehicles proposed for acquisition.

The Public Utilities and Transportation portion of the General Services Department faces a similar problem of being able to program and acquire necessary communications equipment prior to the budget decisions being made and funds becoming available.

A major obstacle appears to be communication between the user and the support agencies. The support departments are in the position to be of great service in an advisory capacity prior to the submission of formal requests. In this way the requirements and the best means of meeting them can be clarified. The establishment of a multi-year program for equipment purchasers is one alternative. Establishment of such a multi-year equipment program which would consider the current year and the next fiscal year would permit an acquisition program which

will take advantage of the market place. Consolidated purchase orders with options to buy additional items in the next fiscal year are another method which has been successful in some cases. The combination of these purchasing and support activities under a single management was a primary consideration in the decision to establish the General Services Department. It is anticipated that this reorganization will produce substantial benefits by itself, and should make further standardization of equipment more feasible.

Such a program should be developed by the Fleet Management Committee, which was recently formed to provide consolidation of specialized activities and partial standardization of equipment for Fire, Police, Recreation and Parks, and Fleet Services operations. Purchases of fleet equipment accounts for approximately 80 percent of the total yearly equipment appropriations in the last "normal" fiscal year, 1977-78.

This Office released a Feasibility Study of the Consolidation of Fleet Maintenance Operations in October 1978, which recommended in part that the above Fleet Management Committee be established, and that the existing Purchasing Standards Committee be the organization to effect increased standardization of the City's fleet. However, after review of the operations of the Purchasing Standards Committee, (see next report section), and the workload necessary in connection with the Materials Management System, it appears that the optimum course for the City would be to amend the Administrative Code to place responsibility for standardizing vehicular equipment to the maximum extent possible with the Fleet Management Committee. This change would take advantage of specialized knowledge and free the Purchasing Standards Committee for standardization of those other expense and equipment items which account for the bulk of items and purchase orders. Also recommended is the addition of the Purchasing Agent to the Fleet Management Committee, as decisions should be made which make it prudent that an official with his Charter powers be included. (See Recommendation No. 10.)

Purchasing Standards Committee

In November 1966, the City Council adopted Ordinance 133,422 which established and empowered a Purchasing Standards Committee, chaired by the Purchasing Agent, to study, prepare and adopt written standards and standard specifications to be used in the purchase of materials, supplies and equipment by the City. Sections 9.19 to 9.24 of the City Administrative Code spell out the organization of the Committee, the Committee duties, voting and other procedures, and provide for advisory committees. On

January 9, 1968, the Purchasing Standards Committee adopted a set of procedural rules which are consistent with the Administrative Code.

Section 9.21 of the Administrative Code requires the Purchasing Standards Committee:

- "a. To classify those purchases required to be made by the Purchasing Agent under Section 391 of the Charter."
- "b. To establish written standards for all such purchases."
- "c. To prepare and adopt written specifications of all such standardized purchases. All such specifications shall be definite and certain and shall permit competition."
- d. To hold official meetings at least once every two months. The Committee may adopt appropriate rules not inconsistent herewith for the orderly transaction of business."

The Purchasing Agent has classified all purchases made by him under Section 391 of the Charter into commodity groupings. However, these groupings have not been adopted by the Purchasing Standards Committee as called for in the Administrative Code.

The Committee has not yet established written standards or standard specifications for all purchases under Section 391. As of January, 1979, 11 standards and 79 standard specifications were in effect. Only four of the standards and several of the standard specifications relate to equipment.

The Committee has generally held meetings at least once every two months, but there have been exceptions over the years for various reasons. Most of the standards and standard specifications now in effect were adopted between 1971 and 1976; none were adopted in 1967, 1968, 1969 or 1977.

Based on the above information, it may be concluded that the Purchasing Standards Committee has not achieved the progress that would be expected after 12 years of activity. Most of the work has been focused on City Stores items reportedly because there has been considerable resistance from City departments when efforts have been made to standardize non-stores items.

The Acting Chairman of the Purchasing Standards Committee, who is a Purchasing Specifications Analyst in the Supplies (now General Services) Department, does not now have any staff to assist him with the development of standards and standard specifications and other Committee work and states that he can only devote about 15 percent of this time to these

activities. Staff support through federal funding is no longer available. If more work is to be accomplished, additional staff time will be required. Several Committee members, when interviewed, expressed such a need. (See Recommendation No. 1a.)

Administrative Code Section 9.23 calls for the Purchasing Standards Committee to consult with all affected City departments and to establish advisory committees composed of representatives from those departments to assist the Committee in the execution of its duties. Advisory committees were used during the first several years but reportedly they were not effective and were discontinued. The Acting Chairman, who has coordinated all Committee activities from the beginning, believes that the only way advisory committees can be effective is if they are provided with specific proposed standards and standard specifications to consider and if they consist of departmental representatives who are knowledgeable of the specific items under consideration. The Purchasing Standards Committee should again utilize advisory committees. The exception, as noted above, is that the Fleet Management Committee should be assigned responsibility to recommend standards and specifications for the purchase of vehicles. It is proposed to add the Purchasing Agent as a member of that committee. (See Recommendations No. 7 and 10.)

Some members of the Purchasing Standards Committee have suggested that greater use should be made of the federal standard specifications. When these specifications are not directly applicable for City use, they can often serve as a basis for discussion and be modified accordingly. Copies of Federal Specifications should be furnished to members of the Advisory Committee, Purchasing Standards Committee, and others in order to expedite the preparation of City specifications. (See Recommendation No. 8.)

In October 1972, the Purchasing Agent sent a communication to all City departments advising that in the future there would be no routine distribution of City standards and standard specifications as prepared by the Purchasing Standards Committee. Any department desiring copies of specific Standards and Standards Specifications was asked to contact the Supplies (now General Services) Department. This policy is still in effect and there is currently only one official set of those documents in the Department. Photo copies of the original documents are made each time copies are requested. In our opinion, all departments and buyers should be furnished with a complete set of all current standards and revisions as they are prepared. (See Recommendation No. 5.)

Members of the Purchasing Standards Committee have mentioned that in the past, the Purchasing Agent has authorized

the purchase of non-standard items when a Committee approved standard exists. The Audit Team has been advised that the Purchasing Agent will in the future refer all requests for deviation from City standards or standard specifications to the Purchasing Standards Committee for approval or disapproval. This should result in improved respect for the Committee's standardization efforts, and it is recommended that all departments be advised of this new policy in writing. (See Recommendation No. 6.)

Section 9.20 of the Administrative Code specifies that the Purchasing Standards Committee will consist of five City officials or their designated representatives. The Supplies (General Services) Department normally has two members present; the Acting Chairman, and the Assistant Purchasing Agent, who speaks for the Purchasing Agent. This arrangement is contrary to the intent of the Administrative Code and should be corrected. (See Recommendation No. 4.)

Section 9.19 of the Administrative Code states that a "Standard" shall mean "an established agreement on definite quality, design, and size of supplies and equipment". "Standard Specifications" are defined as "technical descriptions of materials or products which have been adopted as standard".

There is a lack of clarity as to when a document issued by the Committee is designated as a "Standard" and when it is called a "City Standard Specification". The distinction in application is so vague and inconsistent that it appears confusing and unnecessary to issue separate documents as is sometimes done.

For example, the "City Specifications" for filing cabinets specify the type and design of filing cabinets which will be purchased for Council controlled departments. Similar information pertaining to typist chairs is issued under the heading of "City Standard". In the case of office desks there is both a "standard" and a "Standard Specification" with the specification repeating most of what is included in the "standard".

The existing inconsistency is not limited to equipment. A "City Specification" recently considered by the Purchasing Standards Committee specifies a particular type of Wire Rope Clamp which is to be the only type purchased by the City. This is in effect a "Standard" as well as a "Standard Specification".

In our opinion, the "Standards" and the "Standards Specifications" for any given item should be included in one document. This document could be called "City Standards for Purchasing (name of item)". (See Recommendation No. 9.)

OTHER FACTORS AFFECTING STANDARDIZATION

There are several factors and techniques which were discussed in connection with standardizing City equipment.

Lowest Ultimate Cost

The City Attorney has issued an opinion which states: "In ascertaining which bid is the 'lowest', with respect to cost or price, the cases have held that the awarding authority is not bound to accept the bid which contains the lowest dollar amount but may consider the cost of the property in relation to how and where it is to be used, possible maintenance expenses and other factors which may effect its ultimate cost".

A representative of the City Attorney advises that uniform procedures should be developed for documenting the factors to be considered in determining the lowest ultimate cost in place and use. Although the cost factors to be considered do not necessarily have to be spelled out in the Request for Bids, it would be desirable to do so whenever possible.

Since standardization of equipment can result in cost savings to the City, the Purchasing Agent should develop procedures to document the lowest ultimate cost in place and use whenever this can be done without elaborate record keeping. Such factors as the cost of parts, the cost of maintenance contracts, or the manufacturer's service charges for repairs could be considered merely by asking for these costs in the Request for Bids.

Purchase Options for Additional Items

A "purchase option" allows the buyer to purchase additional items over and above the basic purchase. Recently, the Fire Department exercised a purchase option for additional fire engines over and above a basic agreement.

We believe the purchase option can be used to a greater extent to achieve equipment standardization. The purchase option is especially beneficial because it can be made in one budget year and exercised in the following budget year when more funds are available.

Since many City purchases are made in the last six months of a fiscal year, purchase orders made in the last six months should carry the option for additional items in the next budget year which begins July 1.

In order to achieve the most efficient and optimum standardization of equipment in the City, copies of major department's equipment requests under serious consideration in the budget process should be made available to equipment planners for use in formulating future purchase options. (See Recommendation No. 2.)

In discussions with Fleet Services management, who perform consolidated equipment purchasing for all City departments except Fire, Police, Airports, Harbor and Water and Power, the reduced equipment budget program has made it impossible to make group equipment replacements in the way that would promote equipment standardization in the City. A normal replacement budget of about \$10 million per year of five years ago has now been reduced to about \$3 million per year. With the exception of refuse collection vehicles and street sweepers, very little group purchasing takes place. Thus, in its place a replacement program which allows only a few vehicles from each group to be replaced is in effect. This spotty replacement of major vehicle items promotes non-standardization in the City.

Fleet Services does follow the practice of making consolidated group purchases and has exercised the use of the purchase option to extend from one fiscal year to the next. Many of the purchase options are placed on heavy equipment purchases. These are exercised late in the fiscal year usually April and in May. This is done because the equipment manufacturers can then better forecast their production schedules for the calendar year in which they operate.

1977-78 EQUIPMENT LIST

<u>Vehicular Equipment</u>	<u>Millions of Dollars</u>	
Transportation Equipment - General	\$ 8.6	
Firefighting Apparatus + Accessories	1.7	
Construction and Maintenance	<u>2.1</u>	<u> </u>
Subtotal	\$12.4	81%
<u>Other Equipment</u>		
Furniture and Furnishings	\$.2	
Office Equipment	.2	
Technical Equipment	.6	
Field Equipment	.3	
Other Operating Equipment	<u>1.6</u>	<u> </u>
Subtotal	\$ <u>2.9</u>	<u>19%</u>
TOTAL	<u>\$15.3</u>	<u>100%</u>

EQUIPMENT CLASSIFICATION GUIDELINES

- A. Items which should be classified as Equipment if the cost is over \$300.00, but should be classified as Expense if the cost is \$300.00 or less.

Addressing Machine,
manual

Agricultural Implement

Alternator

Ammeter, volt-ohm, etc.

Amplifier

Anemometer

Aspirator, Resuscitator,
etc.

Atomizer, medical

Baker, medical, electric

Balance, scale

Barometer

Bassinette w/stand

Bath, leg, arm, paraffin,
etc.

Battery Charger

Baumanometer

Bed or Crib

Bench Work

Bin, portable stainless
steel

Binding Machinery

Binocular

Blackboard or Bulletin
Board, portable, including
magnetic

Boat

Bookcase

Cabinet, all (except built-in)

Cart, concrete, dish,
stretcher, etc.

Case, exhibit or show (except
built-in)

Chair, all (including
wheelchairs)

Chest of Drawers

chiffonier

compressor (except built-in)

Construction & Maintenance
Equipment

Couch

Credenza

Cutter, cast

Davenport

A. Continued

Desk, comptometer, 54" and under	Gymnasium or Athletic Equipment
Desk, key punch	Hair Dryer, with or without stand
Desk, nurses station, chart, etc.	Hammer, power
Desk, office, 54" and under	Handpiece, dental
Desk student or school	Hoist (except built-in)
Desk, typewriter, 54" and under	Humidifier
Desk, NOC	Illuminator, x-ray
Detector	Incubator
Diathermy Unit	Jack, hydraulic, portable, garage, etc.
Director Board (except built-in)	Kiln
Disinfecting Apparatus, Deodorizer, etc.	Kitchen equipment, all (except built-in)
Dispenser (cream, milk, plate, tray, grease, oil, tape, etc.)	Laboratory Apparatus and Equipment (except built-in)
Distilling Apparatus	Ladder Unit, on Casters
Drafting Machine	Lamp, all
Dresser	Lapping Machine
Drill	Laundry Machinery and Equipment (except built-in)
Edger, lawn	Lecturn
Fan, portable	Lens, camera or projector
File, all	Lift, patient
Gauge	Loom
Generator, power	Lounge
	Lubricating Unit

Grinder, all

Marker, line

A. Continued

Megaphone	Scale, all types (except built-in)
Meter, all	Screen, projection
Microphone	Settee
Microscope	Shaker
Mixer, malt, bar & lab	Shears, hedge
Mower, lawn	Sofa
Numbering Machine	Stand
Oxygen Tent	Stapler
Pad, alternating (including unit)	Sterilizer
Paper Cutter	Stirrer, electric
Planimeter	Table, all
Powerstat (Power Supply, Transformer) Voltage Control	Tank, water, oil, fuel
Pump (except built-in)	Tester
Pyrometer	Toaster, 2 or 4 slice
Rack, portable	Transformer (except built-in)
Road Making and Upkeep Equipment	Truck, appliance, book, dish, hand, mop, utility, etc.
Router	Walker, invalid
Sander, electric	Work Bench
Saw, electric	Wrench, impact

B. Items which would be classified as Equipment if the cost is over \$100.00, but should be classified as Expense if the cost is \$100.00 or less.

Camera	Record Player, Tape Player, or Phonograph
Radio, household	

Vacuum Cleaner, Floor Polisher,
Electric Broom

B. Continued

Accounting Machine

Adding Machine

Addressing Machine, electric

Air Conditioner (except
built-in)

Auto and Truck Body and
Chassis

Autoclave (except built-in)

Billing Machine

Bookkeeping Machine

Calculator

Cancelling Machine

Cash Register

Changer, coin

Check Printing Machine

Check Protector

Check Signing Machine

Comptometer

Computing Equipment, EDP

Cooler, water, electric
(except built-in)

Counting Machine, money

Dental Unit

Desk, 55" and over

Dictating Equipment, all
types

Digger, earth, power

Electrocardiograph

Engine, diesel, gasoline or
steam (except built-in)

Excavator

Firearm

Grader

Intercom (including
installation)

Key Machine

Mailing Machine

Microfilm Apparatus including
Cameras

Microprojector, including
Reader and Viewer

Microwave Equipment

Mimeograph

Motion Picture Camera
and Equipment

Motion Picture Projector

Motor Vehicle

Motorcycle

Organ

Piano

Projector and Equipment

Radio (other than household)

Recorder, cassette

Recorder, time, etc.

Duplicating Equipment
including Joggers

Refrigerator Equipment (except
built-in)

B. Continued

Safe	Teletype Equipment
Sealer, envelope	Television
Sewing Machine	Typewriter
Tabulating Equipment	Viewer, microfilm
Tape Recorder	X-ray equipment
Telemetering Equipment	

C. Items classified as Expense, regardless of cost.

Bench, wood, seating	Drapery and Stage Curtain
Bicycle medical model, phantom	Model, including doll, manikin,
Cage, animal	Receptacle, waste
Carpeting	Siren, motor vehicle
Disposal, garbage	Surfboard
Dockboard, non-power	Transducer, medical
Dolly furniture, 4-wheel	

D. Original acquisition items which should be classified as fixed assets, structures and improvements, and should be included in a capital project. Replacement items should be classified as expense. Additions should be classified preferably as structures and improvements but can be classified as Equipment if the cost is over \$300.00. Additions should be classified as expense if the cost is \$300.00 or less.

Air Conditioning System, including Chiller, Condenser, Pump, etc. (window type conditioners or Heat Pumps are still classified as equipment regardless of cost)	Cabinet, kitchen or lab, built-in or wall hung
Blower, built-in	Chlorinator Equipment
	Compressor
	Controller, sprinkler (to be included with sprinkler

system or building)

Equipment, including
materials

Special, experimental kind

For use in the office
equipment, such as type writer
files, etc. for the office use
of the company, etc.
equipment, including all
materials

Equipment, including all
materials

Equipment, including all
materials

Equipment, including all
materials

Equipment, including all
materials

Equipment, including all
materials, etc.

Equipment, including all
materials

Equipment, including all
materials

Equipment, including all
materials

Equipment, including all
materials

Equipment, including all
materials

Equipment, including all
materials

Equipment, including all
materials, etc.

Equipment, including all
materials

Equipment, including all
materials

Equipment, including all
materials, etc.

Equipment, including all
materials, etc.

Equipment, including all
materials

Equipment, including all
materials, etc.

Equipment, including all
materials

Equipment, including all
materials

Equipment, including all
materials, etc.

Equipment, including all
materials

Equipment, including all
materials

D. Continued

Conveyor Machinery,
motorized

Cooler, evaporative, roof

Cooler, water or drinking
fountain, wall type (floor
Type, Sun Roc or other are
still classified as
equipment regardless of
cost)

Counter, cafeteria, kitchen
or other

Desk, charging (Library)

Dishwasher, built-in or
restaurant size

Door Operator

Elevator, including Hoist,
Pump, Motor, etc.

Escalator, including motor

Fan, built-in

Furnace

Gym Seat, telescopic

Heater, space, ceiling or
wall mounted

Heater, water

Heating System, including
Pumps, Boilers, etc.

Hoist, built-in

Hood, fume or steam

Intercom System, the wiring,
small speakers & built-in
items only

Public Address System, the
wiring, small speakers &
built-in items only

Range, built-in or restaurant
size

Refrigerator System, including
Compressors, Condensers, etc.

Scale, in the floor

Sink

Sterilizer, wall installation

Transformer

Water Softener

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